No. 2518

United States Circuit Court of Appeals

FOR THE NINTH CIRCUIT

PACIFIC PHONOGRAPH COMPANY, a Corporation,
Appellant,

vs.

SEARCHLIGHT HORN COMPANY, a Corporation,
Appellee.

APPELLANT'S BRIEF

UPON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA, SECOND DIVISION

N. A. ACKER,
D. HADSELL,
J. EDGAR BULL,
Solicitors for Appellant.

IN THE

UNITED STATES CIRCUIT COURT OF APPEALS

FOR THE NINTH CIRCUIT

PACIFIC PHONOGRAPH COMPANY, a Corporation, Appellant, vs. SEARCHLIGHT HORN COMPANY, a Corporation, Appellee.	No. 2518

APPELLANT'S BRIEF

This is an appeal, under Sec. 129 of The Judicial Code, 36 Statutes at Large 1087, U. S. Compiled Statutes of 1901 Supplement 1911, page 194, from an order of the United States District Court for the Northern District of California, Second Division, denying an Interlocutory Injunction.

HISTORY OF THE CASE.

Appellee herein—Searchlight Horn Company—on the 9th day of May, 1913, commenced a suit in Equity, No. 18, as plaintiff, in the United States Dis-

trict Court for the Northern District of California, against Appellant herein, Pacific Phonograph Company, as defendant, for infringement of a patent for Horns for Phonographs and Similar Machines.

In this suit a preliminary injunction was asked for and was granted on June 24, 1913, and thereafter said appellant took an appeal to this Court from the order granting the preliminary injunction in the Equity suit, No. 18, which order was by this Court, on May 4, 1914, affirmed.

Immediately thereafter appellee herein commenced a suit in Equity, No. 575, in the District Court of the United States for the District of New Jersey, against Thomas A. Edison, Inc., for infringement of the same patent, which said suit reached issue on or about June 27, 1914.

On August 17, 1914, appellant herein filed its Petition in the Court below (Record page 31) praying for an order enjoining the appellee herein from further prosecuting said suit No. 18 and from bringing any more suits of a like nature against dealers in Phonographic Horns supplied by Thomas A. Edison, Inc., until rendition of judgment of the District Court of the United States for the District of New Jersey upon the Master's report on an accounting in the said Equity suit, No. 575, then pending in New Jersey against Thomas A. Edison, Inc.

Upon hearing this Petition the Court below on August 24, 1914, denied the application for such interlocutory injunction (Record page 55) and it is from this order denying said injunction that the present appeal is taken.

STATEMENT OF THE CASE.

Appellee herein, Searchlight Horn Company, the owner of the patent sued on, was, prior to May, 1908, engaged in the manufacture of the patented horns, and it sold said horns to dealers throughout the United States. It was not itself a user of said horns but derived its profit, or attempted to do so, by the manufacture and unconditional sale of said horns direct to dealers throughout the United States. Since the date above mentioned, it has not been engaged in such manufacture and sale. (See appellant's Petition, paragraphs XIII and XIV, Record page 36, and appellee's admission of same in Answer to Petition, paragraph 9, page 62.)

Appellant herein, Pacific Phonograph Company, is a dealer in music and musical instruments, and is one of many customers of Thomas A. Edison, Inc., and all the phonographic horns complained of as infringements in the present suit were purchased by said Pacific Phonograph Company from said Thomas A. Edison, Inc. (Record pages 34-35, paragraphs VII and XII, Appellant's Petition.)

This is not denied by appellee, its answer to paragraph VII (Record page 59, section 4) contenting itself with calling appellant the general Pacific Coast distributing agent of Thomas A. Edison, Inc., but later in its Answer to paragraph XII (Sec. 8, Record pages 61-62) appellee admits the same.

Thomas A. Edison, Inc., the defendant in the New Jersey suit, No. 575, sells the phonographic horns to its customers, amongst whom is the appellant herein, and the horns complained of as infringements in the

New Jersey suit are the horns sold by Thomas A. Edison, Inc., to its various customers, and amongst the horns so complained of are those sold to the appellant herein; and those sold to Babson Brothers, Inc., another purchaser from Thomas A. Edison, Inc., the defendant in another suit in Equity, No. 7, brought by appellee herein in the United States District Court for the Northern District of California, Second Division (Record page 34, paragraph IX.)

It should now be clear that Thomas A. Edison, Inc., is the source from which spring the infringements involved in the whole matter, and that, assuming infringement, this Company in selling the horns to its various customers, throughout the United States, has usurped the place of the appellee herein, Searchlight Horn Company, which, if not thus driven out, would presumably be selling the patented horns to these same purchasers. This idea is clearly conveyed in another form of expression found in the Petition herein; namely, that all the horns which have been and may be complained of as infringements in suits already brought or to be brought against customers of Thomas A. Edison, Inc., are horns which are subject to the accounting in the suit pending in New Jersey against Thomas A. Edison, Inc.

(Record page 35, paragraph XI.)

It is also clear that upon accounting for the infringing horns and satisfying any judgment which may be rendered in the New Jersey case, against Thomas A. Edison, Inc., the horns so accounted and paid for by the Company will be released from the patent monopoly and the customers of the Company

who bought said horns will not be liable to appellee herein.

(Record page 36, paragraph XIV.)

ARGUMENT.

The seven assignments of error (Record pages 72-73) are but variations of one idea and need not be separately treated. They are all included in the sole contention that a state of facts is here presented which brings the case fully within the now well established law on the subject.

This law has lately found its final expression in a well considered case recently decided by this Court, and so completely does the doctrine of that case cover the present case that our task is simplified and is reduced to the mere necessity of brief comparison.

It is our contention that the case of *Stebler* v. *Riverside Heights Orange Growers Association, et al.*, 214 Fed. 550, decided May 30, 1914, by this Court, completely controls the present case, and must result in reversing the Court below.

The Stebler case marks an advance in patent law so clearly logical and inevitable as to excite wonder that its generic principle was not sooner recognized and announced. This advance is true, notwithstanding that in the memorandum opinion of the Court below published in the record of the Companion Appeal, Case No. 2518, its doctrine seems to be regarded as a restricted species, thus giving opportunity for distinctions which, we respectfully submit, are without difference.

To come at the matter speedily, we contend that

the doctrine in the Stebler case, as announced by this Court, is generic, and covers any set of facts and circumstances in which there is a suit against a primary or main infringer against whom a judgment and recovery may be had which will give to the patentee all the latter could have had, or to which he would be entitled under his patent, if such infringement had not occurred; and the patentee's full measure of compensation is had and expressed when he recovers from, or is entitled to recover from the primary or main infringer, the damages he has suffered, and the gains, profits and advantages the infringer has made from his infringing acts. The foundation of this lies in the fact that when he makes such recovery, the infringing articles are released from the patent monopoly, just as fully as if he had sold them himself, and he cannot follow them beyond the primary or main infringer. This being true, and the doctrine of the Stebler case being as broad and generic as we read and state it, it makes not one bit of difference by what name we call the primary or main infringer, whether he be a manufacturer, or a seller; and it makes no difference whether the ultimate infringers be sellers or users.

If there be a fountain head from which *full compensation* can flow, and if the patentee seek his compensation from that source, he can, under the principle and doctrine of the Stebler case, be restrained from seeking such compensation at the same time from the numerous rivulets which have their source in such fountain head; at least, until such time as he shall find the head exhausted. There is no point to be made in "manufacturer" nor in "user," It so hap-

pened in the Stebler case that these were the forms or species appearing, and so also in previous cases, more or less approaching the doctrine under consideration; because those forms are the most natural, the most common. A manufacturer is generally the primary or main infringer; and a user is commonly the ultimate infringer. Because of what opposing counsel has called a "tactical" advantage, it is common to sue a user, and quite frequently, in an excess of "tactical" advantage, to sue a goodly number of users; and this is allowable. But when he forgets himself and sues the manufacturer, whether before or after he sues the users, and all the suits are pending, then Equity will interpose its injunction to the suits against the users, and require him to seek his compensation first from the manufacturer.

The reasons for this as announced by this Court in the Stebler case are such as apply with equal force, are just as cogent, just as logical, just as true, in case the *main* infringer be a wholesale seller, and the ultimate infringers be jobber sellers, or retail sellers, *provided* the circumstances of the case be such that the patentee can recover, and seeks to recover from the main infringer his *full compensation.*

If we can show this, it is clear that the Court below is in error, for by reference to the Memorandum Opinion (published in the Record of the Companion Appeal 2519, pages 130-133) it will be seen that though His Honor, Judge Van Fleet, was, at first, upon the argument of the Petition, impressed with the applicability of the principles in the Stebler case (he cited only the Stebler case in the Court below, 211 Fed. 985, though the appeal therefrom had at that

time been decided but not published) he afterwards concluded that his first impression was erroneous, and thereupon denied the Petition upon the distinction that the Stebler case presented a manufacturer and numerous users, while the present case presents a main seller, and numerous resellers who purchase from the main seller.

Let us now see whether this is, in reality, a difference which means a departure from the doctrine or principle announced by this Court in the Stebler case.

The Court says:

> "The plaintiff is a manufacturer and seller of the machines covered by his patent"—

This was true of the present appellee, the Searchlight Horn Company.

And the Court further says:

> "—and the sole profits which he derives from his patent are those arising from the manufacture and sale of the machines covered thereby."

True also of Searchlight Horn Company.

Further the Court says:

> "The suits brought by the plaintiff, and sought to be enjoined by the petition of the defendants, are against users of machines which had been manufactured and sold by the defendants prior to the rendition of the opinion of this Court and the entry of the interlocutory decree in the lower Court pursuant thereto."

In the present case the suits sought to be enjoined are against resellers of the horns purchased from a main seller.

The Court goes on to say:

> "The theory of the defendants' petition is that, under the accounting ordered in the interlocutory decree entered in the Court below, the plaintiff would receive full compensation for all infringing machines which had been manufactured and sold by the defendants in violation of the plaintiff's patent; that such machines would be thereafter released from any claim on the part of the plaintiff by virtue of his patent; and that the plaintiff, pending the entry of the final judgment against the defendants in this suit, is not entitled to bring or maintain any suits against the persons or corporations, customers of the defendants, to whom the infringing machines had been sold by the defendants, and who were users of them at the time of the institution of the various suits sought to be enjoined."

The theory of the defendant's petition in the present case is that under the accounting prayed for and possible, in the pending suit against Thomas A. Edison, Inc., in New Jersey, the Searchlight Horn Company, appellee herein will receive full compensation for all infringing horns sold by Thomas A. Edison, Inc., in violation of appellee's patent; that such horns would be thereafter released from any claim of appellee; and that appellee, pending the entry of final judgment against Thomas A. Edison, Inc., in the pending New Jersey case is not entitled to bring or maintain any suits against customers of Thomas A. Edison, Inc. (in the present case, Pacific Phonograph Company) to whom the infringing horns had been sold by Thomas A. Edison, Inc., and who were sellers of them at the time the various suits were brought.

These theories are manifestly alike. Verbally they

differ in the use of manufacturer and user on the one hand, and seller and purchaser on the other hand. But the *essential* fact of each statement of the theory is identical, namely, that if *full compensation* may be had from a central or main infringer, the infringing devices are released from the monopoly of the patent, and cannot be followed beyond the main infringer. What possible distinction in this principle can be founded upon whether the main infringer be a manufacturer or a seller, or whether the succeeding infringer be a user or a reseller? None, we say, for these are but words; the real thing is the *full compensation,* resulting in release from the patent monopoly.

Continuing, the Court in the Stebler case says:

> "The defendants were manufacturers of and general dealers in machinery of various kinds used in the business of fruit packing, and it is not to be denied that the institution and prosecution of the suits set forth in the petition, and similar suits, against customers of the defendants, would have the effect of harassing and annoying the defendants' customers; that they would be put to heavy expense; and that the probable outcome would be the loss to the defendants of the patronage of such customers and the consequent depreciation and destruction of their business as dealers in packing house machinery and supplies."

Is this not true of the present case? Is it not true that frequently in patent cases, it is thought a terrifying pressure on users and customers is a wholesome thing, one well adapted to bring the main infringer to time, a "tactical" advantage as counsel says. The number of these tactical suits is merely a matter of

degree. In the Stebler case the maximum was, perhaps, reached. In the present case we find two such suits against customers, but the potentiality of others is not eliminated.

Judge Morrow continues:

> "The bill of complaint filed by the plaintiff in this case asked that the defendants be decreed to account for and pay over unto the plaintiff the gains and profits realized by the defendants from and by reason of the infringement, and further, that the defendants be decreed to account for and pay over unto the plaintiff the damages suffered by him by reason of the infringement."

In the case now pending against the main infringer, Thomas A. Edison, Inc., in New Jersey, the prayer is the same, that is, for profits and damages. (Record page 45, Affidavit of Pommer.)

This Court in the Stebler case continues:

> "There was thus distinctly provided a method whereby the plaintiff might recover all losses suffered by him by reason of the infringement of his patent—those in the nature of damages as well as those in the nature of profits received by the infringing defendants."

Precisely the same method is provided in the pending case against Thomas A. Edison, Inc.

To quote further:

> "There is no controversy in the case as to the financial ability of the defendants to respond to whatever judgment might be finally rendered against them upon the final hearing of the case."

There is no controversy here as to the financial ability of Thomas A. Edison, Inc., to respond to judgment.

The Court continues:

> "To permit the plaintiff, under such circumstances, to institute and maintain suits against the customers of the defendants, to whom the infringing machines have passed, would, it is obvious, be harassing, annoying, and expensive, and would place the plaintiff in a position to maintain the suits to recover full compensation in a double proportion for the losses suffered by him by reason of the infringement."

This is true of the present case.

Judge Morrow continues:

> "The plaintiff derives his profits from the the manufacture and sale of the fruit grading machines covered by the patent. These profits consist of the difference between the cost of manufacture and the prices for which he sells the machines. These profits are therefore the only compensation which he receives for the machines manufactured and sold by him during the entire life thereof. When final judgment is entered against the defendants pursuant to the accounting which has been ordered against them, the plaintiff will receive thereunder full compensation for the use of the machines by the vendees of the defendants herein for such period as they are capable of being used, in the same manner and to the same extent as he would have done had he sold the machines himself. This being true, a decree against the defendants for the profits which they received by reason of the sales of the infringing machines, together with whatever damages the plaintiff may have suffered by reason thereof, must be held to vest the right to

> the use of the machines in the defendants' vendees free from any further claim by the patentee."

Here we find finally and fully stated the idea of *full compensation* resulting in a release of the infringing devices from the monopoly.

It cannot be said that a material difference exists between a *manufacturer* infringer paying the full compensation and a seller infringer doing so, nor between the release of the infringing devices in the hands of one form of customer, namely, a user, and another form of customer, to-wit, a reseller. The essential things are *full compensation* and *release,* and it is immaterial from what source the former comes, or in whose hands the latter is effective. If these are the essential things, it is clear that the statement of the Court below that all the defendants to these suits are guilty of precisely like acts of violation of plaintiff's rights, differing only in degree but not in kind, is wholly beside the mark. It may be true, and they may be, as the learned Judge says, both tort-feasors and equally liable to a suit by plaintiff at his pleasure or election, and yet when plaintiff has *elected to sue both* and can get from the main tort-feasor *full compensation,* he is not permitted to continue his suits against the purchasers of the main tort-feasor, nor to bring other suits against other purchasers of the main tort-feasor, whether said purchasers be users or resellers, for in either case the infringing devices purchased by them and settled for by the main tort-feasor will be released from the patent monopoly. Nor does it matter, as the Court below seems to imply, that in the present case the

suits against the purchaser were brought before the suit against the main infringer. This was the case in *Kelley* v. *Ypsilanti Mfg. Co.*, 44 Fed. 19, cited by this Court in the Stebler case.

We, therefore, submit that the present appeal is well taken, in that, under the law as announced by this Court in the Stebler case, the Court below should have granted our Petition for an Injunction.

Respectfully submitted,

N. A. ACKER,
D. HADSELL,
J. EDGAR BULL,
Solicitors for Appellant.